

Message Text

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APPROVED BY EB/IFD/OMA:RJRYAN

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC POSTS

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SUBJECT: FOLLOWUP TO SECRETARY'S INITIATIVES AT UN
SEVENTH SPECIAL SESSION

REFS: A) STATE 8912, B) CURRENT FOREIGN RELATIONS, ISSUE
NUMBER 2, JANUARY 14, 1976

1. THE MEASURES WHICH THE IMF INTERIM COMMITTEE APPROVED
OR ENDORSED AT ITS RECENT MEETING IN JAMAICA (SEE REFTELS
FOR BACKGROUND) HAVE PARTICULAR SIGNIFICANCE FOR LESS
DEVELOPED COUNTRIES. MANY OF THEM REPRESENT VERY PROMPT
FOLLOWUP TO INITIATIVES IN THE SECRETARY'S SPEECH TO THE
SEVENTH SPECIAL SESSION OF THE UNGA AND THE CIEC MINISTERI-
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AL MEETING. THIS PROVIDES A GOOD OPPORTUNITY FOR US TO

REEMPHASIZE OUR COMMITMENT TO THE PROGRAM WHICH THE SECRETARY HAS OUTLINED AND NOTE THE CONCRETE RESULTS ALREADY EVIDENT NOT ONLY IN THE JAMAICA AGREEMENT BUT ALSO IN SEVERAL OTHER KEY AREAS NOTABLY GSP, IFAD AND IFC REPLENISHMENT. JAMAICA SHOULD BE SEEN ESSENTIALLY AS AN IMPORTANT LANDMARK IN THE CONTINUING PROCESS OF CONSTRUCTING NEW COOPERATIVE AND PRAGMATIC NORTH-SOUTH RELATIONSHIPS. MUCH REMAINS TO BE DONE BUT CLEARLY THE DESIGN WHICH THE U.S. PROPOSED AT THE UN AND THE CIEC MINISTERIAL, WHICH WAS LARGELY ADOPTED IN THE SPECIAL SESSION'S OWN PROGRAM OF ACTION, IS SYSTEMATICALLY BECOM-

ING A REALITY. FOR OUR PART WE WILL CONTINUE TO PRESS VIGOROUSLY IN THE CIEC DIALOGUE AND ELSEWHERE FOR SUBSTANTIAL ADDITIONAL PROGRESS IN THE COMING MONTHS. WE HOPE THAT OTHER PARTIES TO THE DIALOGUE WILL PROCEED IN THE SAME SPIRIT.

2. UNLESS LOCAL FACTORS DICTATE TO THE CONTRARY, POSTS IN LDC NATIONS SHOULD DRAW ON THE PARAGRAPHS BELOW IN AN APPROACH ALONG THESE LINES TO APPROPRIATE HOST GOVERNMENT OFFICIALS. OTHER POSTS CAN ALSO USE THE SAME MATERIAL TO MAKE SIMILAR POINTS IN CONVERSATIONS WITH OFFICIAL CONTACTS.

3. THERE ARE THREE PRINCIPAL MEASURES WHICH THE INTERIM COMMITTEE ADOPTED TO PROTECT LDCS FROM DANGER OF FINANCIAL COLLAPSE AND FOSTER THEIR RENEWED GROWTH. THEY ARE THE SPECIAL IMF TRUST FUND FOR THE LEAST DEVELOPED, LIBERALIZATION OF THE IMF COMPENSATORY FINANCING FACILITY AND A WIDENING OF IMF CREDIT TRANCHES. TOGETHER WITH EXISTING BILATERAL AND MULTILATERAL FACILITIES FOR ASSISTING LDCS, WE BELIEVE THESE STEPS INSURE THAT SUFFICIENT FINANCING IS AVAILABLE IN THE AGGREGATE TO COVER THE VERY LARGE BALANCE OF PAYMENTS DEFICIT WHICH LDCS FACE THIS YEAR. (WE RECOGNIZE, HOWEVER, THAT THE SITUATIONS OF A NUMBER OF INDIVIDUAL COUNTRIES WILL STILL BEAR WATCHING.) THESE MEASURES ALONE WILL MAKE AVAILABLE AS MUCH AS \$5 BILLION IN MAXIMUM POTENTIAL ADDITIONAL ACCESS TO IMF RESOURCES FOR BALANCE OF LIMITED OFFICIAL USE

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PAYMENTS FINANCING THIS YEAR.

4. TRUST FUND. SECRETARIES SIMON AND KISSINGER FIRST PROPOSED THE SPECIAL IMF TRUST FUND LATE IN 1974 AND SECRETARY KISSINGER REAFFIRMED ITS IMPORTANCE AT THE SEVENTH SPECIAL SESSION. IT WILL NOW BE IMPLEMENTED IMMEDIATELY AS PART OF THE GOLD PORTION OF THE JAMAICA PACKAGE. THE TRUST FUND WILL MAKE CONCESSIONAL LOANS TO

THE POOREST COUNTRIES (UNDER ROUGHLY \$350 PER CAPITA GNP). THE PRINCIPAL SOURCE OF FINANCING FOR THE TRUST FUND WILL BE THE PROFITS FROM THE SALES OVER A FOUR YEAR PERIOD OF ONE SIXTH OF THE GOLD WHICH THE IMF HOLDS. WE ALSO HOPE THAT IT WILL RECEIVE CONTRIBUTIONS FROM IMF MEMBERS, PARTICULARLY KEY OPEC STATES IN A STRONG INTERNATIONAL RESERVE POSITION, SUCH THAT TOTAL FUNDING AVAILABLE COULD REACH \$1 BILLION A YEAR.

5. COMPENSATORY FINANCING. AT THE SEVENTH SPECIAL SESSION THE SECRETARY PROPOSED THE CREATION OF A DEVELOPMENT SECURITY FACILITY IN THE IMF TO PROTECT LESS

DEVELOPED NATIONS FROM WIDE SWINGS IN EXPORT EARNINGS. THE DEVELOPMENT SECURITY FACILITY HAS TWO ASPECTS. THE FIRST AND BY FAR MOST IMPORTANT IS A SUBSTANTIAL LIBERALIZATION OF THE EXISTING IMF COMPENSATORY FINANCING FACILITY. THE EXECUTIVE DIRECTORS OF THE IMF APPROVED THIS LATE IN DECEMBER AND THE INTERIM COMMITTEE ENDORSED THEIR DECISION AT JAMAICA. THE CHANGES IN THE FACILITY WILL PRINCIPALLY DO THREE THINGS: A) ADAPT THE FORMULA BY

WHICH EXPORT SHORTFALLS ARE CALCULATED TO MAKE IT ACCORD MORE WITH PRESENT ECONOMIC CONDITIONS; B) DOUBLE THE AMOUNT A COUNTRY CAN DRAW FROM THE FACILITY IN A GIVEN YEAR FROM 25 PERCENT OF ITS QUOTA TO 50 PERCENT; C) INCREASE THE LIMIT ON CUMULATIVE OUTSTANDING DRAWINGS FROM 50 TO 75 PERCENT OF QUOTA. WITH THESE MODIFICATIONS, WHICH WILL GO INTO EFFECT VERY QUICKLY, LOANS FROM THE COMPENSATORY FINANCING FACILITY COULD EASILY REACH \$1 BILLION THIS YEAR. OTHER ASPECTS OF OUR DEVELOPMENT SECURITY PROPOSAL ARE STILL ON THE TABLE, PARTICULARLY THE USE OF THE TRUST FUND TO PROVIDE ADDITIONAL OFFICIAL USE

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TIONAL COMPENSATORY FINANCING.

6. CREDIT TRANCHE WIDENING. THE IMF NOW PROVIDES MEMBERS IN BALANCE OF PAYMENTS NEED WITH ACCESS TO THE FUND'S REGULAR RESOURCES UP TO 100 PERCENT OF THEIR IMF QUOTA. USUALLY THE FUND MAKES THESE LOANS IN FOUR PHASES OR TRANCHES. BORROWING COUNTRIES AGREE WITH THE FUND ON A SENSIBLE PROGRAM TO REDRESS THEIR BALANCE OF PAYMENTS DIFFICULTIES AND THE CONDITIONS ON THE LOANS GET STIFFER AS MORE IS BORROWED. THE AGREEMENT REACHED AT JAMAICA WILL PROMPTLY EXPAND MAXIMUM LENDING IN EACH OF THE CREDIT TRANCHES BY 45 PERCENT (MAKING MAXIMUM ACCESS TO CREDIT TRANCHES 145 PERCENT OF QUOTA) BUT WILL NOT CHANGE THE CONDITIONALITY OF THE LOANS. THIS ARRANGEMENT, WHICH WILL BE TERMINATED WHEN THE IMF QUOTA INCREASE

ALSO AGREED AT JAMAICA GOES INTO EFFECT (18 MONTHS - 2 YEARS FROM NOW), WILL POTENTIALLY BENEFIT ALL IMF MEMBERS. IT SHOULD BE PARTICULARLY IMPORTANT, HOWEVER, TO LESS DEVELOPED NATIONS NOW RELYING ON PRIVATE CAPITAL MARKETS FOR SUBSTANTIAL FINANCING. SOME COUNTRIES IN THIS CATEGORY FACE THE POSSIBILITY OF SEEING THEIR ACCESS TO PRIVATE CAPITAL DIMINISHED THIS YEAR. HEIGHTENED ACCESS TO IMF CREDIT WILL IMPROVE THEIR CREDITWORTHINESS WITH BANKS AND PROVIDE A CUSHION IF ACCESS TO PRIVATE LENDING IS STILL REDUCED. IN HIS SPEECH AT THE CIEC MINISTERIAL, THE SECRETARY EXPRESSED PARTICULAR CONCERN ABOUT THIS GROUP OF COUNTRIES IN THE CONTEXT OF THE LARGE BALANCE OF PAYMENTS DEFICITS LDCS FACE THIS YEAR. HE ALSO

HELD CREDIT TRANCHE WIDENING AS A PARTICULARLY PROMISING APPROACH TO DEALING WITH THE PROBLEM.

7. AT THE UN IN SEPTEMBER, THE SECRETARY COMMITTED THE U.S. TO IMPLEMENT ITS SYSTEM OF GENERALIZED PREFERENCES FOR LDCS BY JANUARY 1, 1976 AND STRESSED THE IMPORTANCE OF IFC REPLENISHMENT AND ESTABLISHMENT OF AN INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD). IMPLEMENTING ACTION ON THE PART OF THE U.S. HAS BEEN VIGOROUS IN ALL THREE AREAS.

-- ON JANUARY 1, THE U.S. PUT INTO EFFECT A GSP SYSTEM LIMITED OFFICIAL USE

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ENCOMPASSING 2724 TARIFF ITEMS. TOTAL IMPORTS UNDER THESE PARTS OF THE TARIFF TOTALED \$24 BILLION IN 1974, OF WHICH LDCS ACCOUNTED FOR ONLY \$6 BILLION. EXISTENCE OF THE U.S. GSP SHOULD THUS PROVIDE SIGNIFICANT SCOPE FOR EXPANSION OF LDC EXPORTS, PARTICULARLY INTO NEW PRODUCT LINES.

-- THE U.S. HAS PARTICIPATED VERY ACTIVELY IN THE THREE SESSIONS OF THE AD HOC WORKING GROUP ON IFAD. CONGRESS HAS ALSO AUTHORIZED A U.S. CONTRIBUTION TO IFAD OF \$200 MILLION PROVIDED THAT THE FUND HAS TOTAL CONTRIBUTIONS OF \$1 BILLION. WE HOPE THAT FINAL AGREEMENT ON THIS NEW FUND CAN BE REACHED EARLY THIS YEAR. THE PRINCIPAL FACTOR NOW HOLDING IT UP IS LACK OF FIRM COMMITMENTS FROM KEY OPEC NATIONS NEEDED TO REACH THE \$1 BILLION LEVEL.

-- WE HAVE ALSO TAKEN THE LEAD IN URGING THAT THE RESOURCES OF THE INTERNATIONAL FINANCE CORPORATION BE REPLENISHED SO THAT IT CAN PLAY A MORE ACTIVE ROLE IN MOBILIZING PRIVATE RESOURCES FOR THE DEVELOPMENT PROCESS. IN LARGE PART BECAUSE OF OUR INITIATIVE, THE MANAGEMENT

OF IFC IS CONSIDERING PROPOSING A REPLENISHMENT IN EXCESS
OF \$400 MILLION WITH A U.S. SHARE OF OVER \$100 MILLION.
THE IFC SHOULD BRING ITS PROPOSALS FORWARD TO MEMBERS IN
THE NEAR FUTURE. KISSINGER

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